

Message Text

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ACTION SS-30

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FM AMEMBASSY SINGAPORE

TO SECSTATE WASHDC 1121

INFO AMEMBASSY KUALA LUMPUR

AMEMBASSY JAKARTA

AMEMBASSY BANGKOK

AMEMBASSY MANILA

AMEMBASSY LONDON

CINCPAC HONOLULU HI

S E C R E T SECTION 1 OF 2 SINGAPORE 3512

EXDIS

FOR THE SECRETARY FROM AMBASSADOR CRONK

CINCPAC FOR POLAD

E.O. 11652: GDS

TAGS: PFOR, ECON, SN

SUBJECT: QUARTERLY ASSESSMENT - SINGAPORE

A. INTRODUCTION AND SUMMARY

1. FORMER PRESIDENT NIXON WAS WIDELY ADMIRER IN SINGAPORE, PARTICULARLY FOR HIS FOREIGN POLICY ACHIEVEMENTS AND HIS CONTINUED STRONG SUPPORT OF VIETNAM, BUT MANY BELIEVED THAT THE WATERGATE AFFAIR HAD PROGRESSIVELY ERODED HIS PRESTIGE AND HIS POSITION AS A WORLD LEADER. THE U.S. PRESS WAS MORE DAMNED THAN PRAISED FOR WHAT MANY IN EFFECT SAID WAS ITS CONSTANT BADGERING OF A GOOD PRESIDENT.

2. PRIME MINISTER LEE WAS PARTICULARLY DEPRESSED BY ALL THIS AND EXCLAIMED TO ME ONCE: "WHAT'S GOING ON BACK THERE; WHAT'S GOING TO HAPPEN?" NOW THAT IT IS OVER, THERE IS NOT ONLY RELIEF BUT A GENERAL FEELING THAT OUR CONSTITUTIONAL SYSTEM HAS BEEN VINDICATED. ONE EVEN HEARS SOME CAUTIOUS PRAISE OF OUR FREE PRESS.

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3. THE INAUGURATION OF PRESIDENT FORD WAS WARMLY RECEIVED. THE GENERAL ATTITUDE SEEMS TO BE: "NOW AMERICA CAN GET DOWN TO BUSINESS AGAIN AND RESUME ITS ROLE OF WORLD LEADER". THERE WILL BE KEEN INTEREST HERE IN WHETHER PRESIDENT FORD WILL BE ABLE TO CONVINCE THE CONGRESS OF THE NECESSITY OF MAINTAINING AN ADEQUATE LEVEL OF SUPPORT FOR VIETNAM AND WHETHER HE WILL SUSTAIN A STRONG MILITARY PRESENCE IN THE WESTERN PACIFIC AREA.

4. APART FROM THEIR KEEN INTEREST IN OUR INTERNAL AFFAIRS, SINGAPOREANS ARE INCREASINGLY CONCERNED OVER THE SLACKENING OF THEIR ECONOMY AND THEIR VULNERABILITY TO WORLD ECONOMIC TRENDS. THERE IS SOME EVIDENCE THAT THE ECONOMY IS AT A TURNING POINT AND THAT IT WILL BE INCREASINGLY DIFFICULT TO SUSTAIN HIGH LEVELS OF GROWTH. THERE WAS A FLURRY OF ACTIVITY ON THE INTERNAL SECURITY FRONT IN JUNE WITH THE DETENTION OF 26 SUSPECTED MEMBERS OF THE MALAYSIAN NATIONAL LIBERATION FRONT. THIS ROUNDUP IS BELIEVED BY LOCAL AUTHORITIES TO HAVE CUT THE HEART OUT OF THE LOCAL DISSENT GROUP, BUT SURVEILLANCE MEASURES HAVE BEEN INTENSIFIED. THE GOS IS UNHAPPY ABOUT THE EXPECTED RESULTS OF THE BRITISH DEFENSE REVIEW, WHICH EVERYONE ASSUMES WILL CALL FOR THE COMPLETE WITHDRAWAL OF BRITISH GROUND FORCES FROM SINGAPORE, BUT THERE IS HOPE THAT THE BRITISH WILL RETAIN A NAVAL AND AIR PRESENCE AND THAT THE FIVE POWER DEFENSE ARRANGEMENT, HOWEVER, TRUNCATED, WILL REMAIN AS A SYMBOL OF WESTERN SUPPORT FOR SINGAPORE AND MALAYSIA. WE HAVE AN IMPORTANT INTEREST IN THE CONTINUATION OF A BRITISH NAVAL AND AIR PRESENCE.

B. IMPLICATIONS OF BRITISH DEFENSE REVIEW:

5. MY BRITISH COLLEAGUE TELLS ME THAT THE BRITISH DEFENSE REVIEW WILL PROBABLY NOT SEE THE LIGHT OF DAY UNTIL SOMETIME AFTER THE FORTHCOMING ELECTIONS AND THAT IMPLEMENTATION OF ANY FORCE REDEPLOYMENTS WOULD PROBABLY NOT BEGIN UNTIL EARLY 1975. A CHANGE OF GOVERNMENT WOULD CAUSE A FURTHER DELAY. THIS SOMEWHAT DELAYED SCHEDULE IS LITTLE COMFORT TO THE GOS WHICH IS RESIGNED TO THE PROBABILITY THAT UK GROUND FORCES STATIONED IN SINGAPORE (A REINFORCED

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BATTALION) WILL BE PHASED OUT AND THE ANZUK FORCE WILL VIRTUALLY DISAPPEAR FROM THE SCENE. (THE BULK OF THE AUSTRALIAN GROUND CONTINGENT DEPARTED EARLIER THIS YEAR; NEW ZEALAND INTENDS TO RETAIN ITS REINFORCED BATTALION IN SINGAPORE.) WHILE THE ANZUK FORCE HAS NEVER BEEN OF A SIZE THAT WAS MILITARILY SIGNIFICANT, ITS VISIBLE PRESENCE IN SINGAPORE HAS BEEN IMPORTANT TO THE GOS FOR PSYCHOLOGICAL AND POLITICAL REASONS. PRIME MINISTER LEE

AND OTHER SENIOR OFFICIALS HAVE EXPRESSED THEIR KEEN REGRET OVER THE EXPECTED BRITISH WITHDRAWAL. THEY HOPE, AS A MINIMUM, THE BRITISH WILL RETAIN SOME AIR AND NAVAL UNITS IN SINGAPORE.

6. THERE IS AN IMPORTANT U.S. INTEREST INVOLVED. THE BRITISH NIMRODS WHICH CONDUCT LONG-RANGE RECONNAISSANCE FLIGHTS OUT OF SINGAPORE OVER A PORTION OF THE INDIAN OCEAN HAVE, WE UNDERSTAND, PROVIDED A HELPFUL SUPPLEMENT TO OUR P-3 RECONNAISSANCE ACTIVITY BASED AT U-TAPAO IN THAILAND. SINCE THE THAI GOVERNMENT HAS ASKED US TO TERMINATE THE P-3 RECONNAISSANCE MISSIONS, THE NIMROD FLIGHTS OUT OF SINGAPORE PRESUMABLY HAVE TAKEN ON ADDED IMPORTANCE.

7. THE GOS WOULD LIKELY DENY OUR REQUEST TO SHIFT THE U-TAPAO P-3 OPERATION TO SINGAPORE. IT WOULD BE COUNTER TO THEIR NON-ALIGNED POLICY AND TO THEIR DESIRE TO AVOID PROVIDING ANY ONSHORE MILITARY FACILITIES TO EITHER SUPER-POWER. ON THE OTHER HAND, THEY ARE IN FAVOR OF THE BRITISH CONTINUING THEIR NIMROD OPERATION AND PROBABLY WOULD HAVE NO OBJECTION IF THESE OPERATIONS WERE AUGMENTED. SUCH AN AUGMENTATION WOULD HARDLY BE NOTICED.

8. GIVEN THE IMPORTANCE THE U.S. NAVY ATTACHES TO SURVEILLANCE OF RUSSIAN ACTIVITIES IN THE INDIAN OCEAN, AND ASSUMING THAT THE THAIS ARE NOT GOING TO REVERSE THEIR DECISION ON THE P-3'S, IT SEEMS TO ME IMPORTANT THAT WE URGE THE BRITISH TO MAINTAIN THEIR NIMROD FLIGHTS OUT OF SINGAPORE AND, IF FEASIBLE, TO INCREASE THEM SUFFICIENTLY TO MEET THE NEEDS OF THE USN. AS A POSSIBLE QUID PRO QUO, WE SHOULD CAREFULLY ASSESS WHETHER WE ARE IN POSITION TO OFFER TO ACCOMMODATE BRITISH REQUIREMENTS

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ELSEWHERE.

9. WE ALSO HAVE AN INTEREST IN THE MAINTENANCE OF THE ANZUK STORES BASIN AS A BRITISH NAVAL FACILITY. THE EXISTENCE OF THIS FACILITY UNDER BRITISH CONTROL MADE IT POSSIBLE FOR USN SHIPS TO REFUEL IN SINGAPORE DURING THE ARAB OIL EMBARGO. THE GOS HAD INSTRUCTED THE OIL COMPANIES TO ADHERE TO THE ARAB EMBARGO AGAINST U.S. NAVAL VESSELS BUT QUIETLY ALLOWED THE BRITISH TO BUNKER OUR VESSELS AT THEIR OWN FACILITY. IN THE EVENT OF EXPANDED USN OPERATIONS IN THE INDIAN OCEAN, THIS NAVAL FACILITY COULD BECOME OF CONSIDERABLE IMPORTANCE TO US. WE RECOMMEND, THEREFORE, THAT AT AN APPROPRIATE TIME BEFORE THE BRITISH DEFENSE REVIEW IS FINALIZED, WE URGE THE BRITISH TO RETAIN CONTROL OVER THE STORES BASIN. IF THEY DO NOT, IT WOULD

PROBABLY BE TURNED INTO A COMMERCIAL FACILITY BY THE GOS
TO WHICH WE WOULD HAVE ACCESS BUT NOT UNDER SECURE CONDITIONS.

NOTE BY OC/T: EXDIS CAPTION ADDED PER S/S-O, MISS MATTESON.

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S E C R E T SECTION 2 OF 2 SINGAPORE 3512
EXDIS
FOR THE SECRETARY FROM AMBASSADOR CRONK

CINCPAC FOR POLAD

C. ECONOMIC SLOWDOWN:

10. SINGAPORE'S ECONOMY HAS LOST SOME OF ITS ZIP, BUT IS
STILL IN REASONABLY GOOD SHAPE. UNTIL RECENTLY IT
REGISTERED ANNUAL REAL GROWTH RATES OF 12-14 PERCENT, BUT
THE ECONOMY NOW IS IN A MODERATE DECLINE. SEVERAL LOCAL
OBSERVERS IN AND OUT OF GOVERNMENT PREDICT THE DOWNWARD
SLIDE WILL CONTINUE AND SERIOUS PROBLEMS MAY EMERGE.

11. THE GROWTH RATE FOR THE FIRST HALF OF THIS YEAR DROPPED
BELOW 7 PERCENT; ESTIMATES FOR THE YEAR RUN A LITTLE LOWER,
PERHAPS AROUND 4 TO 5 PERCENT. NEW JOB CREATIONS ARE
RUNNING CONSIDERABLY BEHIND THE AVERAGE OF THE PAST SEVERAL
YEARS. FIVE FACTORIES, MOST OF THEM ELECTRONICS MANU-
FACTURERS, HAVE LAID OFF MORE THAN 2,000 WORKERS IN THE
PAST MONTH. THIS HAS RESULTED FROM THE SLACKENING OF
DEMAND, RISING LABOR COSTS RELATIVE TO SOME OF SINGAPORE'S

COMPETITORS AND, IN ONE CASE, THE EXPIRATION OF THE FIRM'S TAX EXEMPT STATUS. MANY OF THOSE DISCHARGED ARE IMMIGRANT WORKERS WHO WOULD RETURN TO MALAYSIA IF UNEMPLOYED; MOST
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SINGAPOREANS AFFECTED HAVE FOUND OTHER JOBS. UNEMPLOYMENT LEVELS ARE STILL LOW.

12. INFLATION, RUNNING AT A RATE ABOVE 20 PERCENT FOR THE PAST YEAR OR SO, WAS SIGNIFICANTLY LOWER DURING THE PAST QUARTER. THERE IS SOME GRUMBLING AMONG WORKERS WHO HAVE SUFFERED A MODERATE DECLINE IN REAL INCOME DUE TO INFLATION BUT THERE ARE NO SIGNS OF LABOR UNREST.

13. BUSINESS CONFIDENCE HAS DECLINED SHARPLY DUE TO WIDESPREAD PESSIMISM OVER THE WORLD ECONOMIC OUTLOOK, SINGAPORE'S ANTI-INFLATION TIGHT MONEY POLICY AND THE EXTREME CAUTION OF LOCAL AND FOREIGN BANKS. INTEREST RATES HAVE RISEN SHARPLY. THE INFLUENTIAL CHINESE CHAMBER OF COMMERCE MADE REPRESENTATION TO GOS IN JUNE FOR A RELAXATION OF MONETARY STRINGENCY, BUT THE GOVERNMENT'S RESPONSE HAS BEEN LIMITED AND EQUIVOCAL.

14. THE INFLOW OF FOREIGN INVESTMENT, AN IMPORTANT SOURCE OF GROWTH, HAS SLOWED TO A NEAR STANDSTILL, PERHAPS REFLECTING THE CAUTIOUS AND THE LESS EXPANSIONARY BUSINESS OUTLOOK IN DEVELOPED COUNTRIES. SINGAPORE WILL TRY TO TURN THIS AROUND BUT SOME BUSINESS AND GOVERNMENT LEADERS ARE PESSIMISTIC ABOUT THEIR ABILITY TO DO THIS.

15. IT IS NOT PRESENT CONDITIONS SO MUCH AS THE UNCERTAIN FUTURE THAT WORRIES PEOPLE I HAVE TALKED TO RECENTLY ABOUT THE ECONOMY. DR. AUGUSTINE TAN, ECONOMICS PROFESSOR, MEMBER OF PARLIAMENT, AND PRIME MINISTER LEE'S ECONOMIC ADVISOR, FEARS THE WORLD IS SLIDING INTO A DEPRESSION AND THAT SINGAPORE COULD NOT ISOLATE ITSELF FROM ITS EFFECTS. SINCE SINGAPORE IS HIGHLY DEPENDENT ON TRADE, SHIPPING AND RELATED SERVICES FOR ITS ECONOMIC LIVELIHOOD, THE ECONOMY IS TIED TO TRENDS IN WORLD TRADE AND ECONOMIC ACTIVITY GENERALLY. TAN'S EXTREME PESSIMISM IS NOT SHARED BY OTHER INFORMED OBSERVERS WE HAVE TALKED TO, BUT THEY ALL PREDICT THAT THE DOWNTURN WILL CONTINUE SO LONG AS THE MAJOR INDUSTRIALIZED COUNTRIES, PARTICULARLY THE UNITED STATES, ARE IN A RECESSION.

16. EVEN AFTER A RECOVERY OF THE WORLD ECONOMY, SINGAPORE MAY NOT BE ABLE TO SUSTAIN ANYTHING LIKE ITS PAST GROWTH
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RATES. SINGAPORE'S DEVELOPMENT STRATEGY, WHICH IS TO SUSTAIN HIGH RATES OF GROWTH THROUGH THE PROGRESSIVE INTRODUCTION OF HIGHER TECHNOLOGY INDUSTRIES, IS BEING QUESTIONED BY DR. TAN AND OTHERS. TAN SAYS SINGAPORE IS CAUGHT WITH A "SANDWICH PROBLEM" AS IT TRIES TO UPGRADE THE TECHNOLOGICAL LEVEL OF ITS INDUSTRY: IT DOES NOT YET HAVE THE SKILLS, INFRASTRUCTURE AND HIGH-PRODUCTIVITY LEVELS TO COMPETE WITH DEVELOPED COUNTRIES, YET ITS LABOR COSTS ARE BECOMING TOO HIGH FOR COMPETITION WITH ITS NEIGHBOR-LDC'S IN LABOR INTENSIVE INDUSTRIES. IF HE IS RIGHT, SINGAPORE WILL HAVE TO LOWER ITS SIGHTS AND REVAMP ITS DEVELOPMENT STRATEGY -- PAYING MORE ATTENTION TO ITS COMPETITIVE POSITION IN THE LDC SCRAMBLE FOR THE INVESTMENT DOLLAR. IT MAY BE THAT SINGAPORE IS AT THE CROSSROADS, ECONOMICALLY, AND THAT SOME FAIRLY DRASTIC STEPS WILL BE REQUIRED TO SUSTAIN THE ECONOMY AT ADEQUATE LEVELS OF GROWTH AND EMPLOYMENT.

D. CRACKDOWN ON COMMUNIST ELEMENTS:

17. THE INCREASED TEMPO OF COMMUNIST INSURGENCY ACTIVITY IN MALAYSIA HAS CAUSED THE GOS IN RECENT MONTHS TO INTENSIFY ITS INTERNAL SECURITY EFFORTS. PRIOR TO A FEW MONTHS AGO, THE SINGAPORE INTERNAL SECURITY DEPARTMENT (ISD) WAS RATHER COMPLACENT ABOUT THE DISSIDENT COMMUNIST ELEMENTS IN SINGAPORE, BELIEVING THAT THEIR NUMBERS WERE SMALL AND THAT ISD HAD THE SITUATION WELL IN HAND. SUDDENLY IN MID-JUNE, ISD PICKED UP AND DEATINED 46 INDIVIDUALS SUSPECTED OF BEING MEMBERS OR SYMPATHIZERS OF THE MALAYSIAN NATIONAL LIBERATION FRONT (MNLF). DETENTION ORDERS WERE ULTIMATELY ISSUED AGAINST 26 OF THESE. THERE ARE CONFLICTING REPORTS ON WHAT TRIGGERED THIS ROUNDUP. ISD CLAIMS IT WAS THE RESULT OF SEVERAL MONTHS OF INTENSIVE INVESTIGATION AND SURVEILLANCE. THERE ARE ALSO REPORTS, WHICH WE TEND TO BELIEVE, THAT ISD STUMBLED ONTO ONE OF THE MNLF LEADERS IN A GAMBLING RAID AND INTERROGATION OF HIM LED TO THE DETENTION OF THE OTHERS. IN ANY CASE, THIS WAS BY FAR THE LARGEST ACTION TAKEN BY THE SINGAPORE AUTHORITIES AGAINST THE COMMUNIST UNDERGROUND HERE IN RECENT YEARS AND IS BELIEVED BY ISD TO HAVE CUT THE HEART OUT OF THE DISSIDENT GROUP. PRIME MINISTER LEE WAS REPORTEDLY VERY UPSET WHEN THE

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NEWS BROKE, AND IT IS FAIRLY SAFE TO SAY THAT ISD IS NOW GIVING A MUCH HIGHER PRIORITY TO THEIR COMMUNIST SURVEILLANCE ACITIVITIES. ISD ESTIMATES THE TOTAL MEMBERSHIP OF THE MNLF IN SINGAPORE AT 100 PLUS WITH PERHAPS 100 OR SO SYMPATHIZERS. IT IS OUR ASSESSMENT THAT ISD NOW

HAS A BETTER HANDLE ON THE SITUATION. SEVERAL KNOWN LEADERS OF THE MNLF, NOT PICKED UP DURING THE JUNE RAIDS, ARE UNDER INTENSIVE SURVEILLANCE. THEIR ARREST, WHICH SEEMS LIKELY, MAY WELL DESTROY THE REMAINING MNLF APPARATUS IN SINGAPORE FOR THE TIME BEING.

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